

WAR ASSETS ADMINISTRATION
REGION 5
CHICAGO, ILLINOIS

STATISTICAL DIGEST

August 15, 1947

Prepared
by
Organization and Methods Division,
Statistics Branch

August 15, 1947

Table 1
Operating Statement
Consumer & Capital Goods
January-July 1947

	End of Month Inventory	Acquisitions	Disposals	Recovery Rate
	\$	\$	\$	%
January	308,887,000	2,627,000	37,438,000	26
February	318,538,000	29,167,000	19,515,000	21
March	308,477,000	12,362,000	22,147,000	22
April	306,313,000	20,623,000	22,786,000	18
May	284,432,000	-1,145,000	20,732,000	14
June	274,975,000	23,954,000	33,407,000	11
July	177,716,000	-70,024,000	27,234,000	14

Inventories

Region V's IBM inventory at the end of July was almost \$100 million lower than at the end of June. This reduction arose primarily from a book-keeping transaction which transferred \$89 million or one-third of the entire regional inventory into a suspense account, pending completion of accounting operations incident to the refirming of inventory.

Excluding the suspense-inventory transaction, net acquisitions in July were \$19 million. Several elements which made up July net acquisitions are significant: (1) owning-agency withdrawals (\$1.8 million, net) were the lowest in at least a year, (2) transfers of inventory out of Region V exceeded transfers into the region by \$6.3 million, with the result that net transfers out were the highest since October 1946. Considerable property (\$10.2 million) was also transferred from owning-agency sites to warehouses within the region in July. This was the largest monthly warehouse transfer, excluding June 1947, in the experience of Region V.

The latest property list indicates that Region V has held 50% of its inventory for more than one year and 10% for more than two years. The property list also indicates that the region still has more than 3000 line-items having 1944 acquisition dates.

A recent Washington order transferred all but two locations in Wisconsin from Region V to Region XXI (Minneapolis). This action will have little effect on the disposal program of Region V since only 1% of Region V's inventory was stored in the locations transferred to Minneapolis.

Disposals

July was an average month for disposals, July disposals (\$27 million) approximating average monthly disposals in the January-June period. As in June, sales of residual electronic equipment (\$10 million) made the biggest contribution to total regional disposals. However, the drop in total disposals of \$6 million from June to July was also due primarily to a \$4 million drop in electronic disposals from June to July.

Over the May-July period, regional disposals fell 50% short at acquisition cost and 70% short at sales value of the sales estimates made by the Office of General Disposal in submitting its personnel requirements for the current fiscal year to the Budget Division last May.

Recovery Rate

The regional recovery rate in July (14%) increased several points over the June rate (11%). If electronic sales with a 1% recovery rate are excluded, the July recovery-rate increases to 22%, the highest since last March.

Offerings

More property was offered for sale in Region V in July (\$110 million) than in any previous month. Of this \$110 million, 82% was offered at fixed-price sales while 18% was offered at bid sales.

As in past months, bid offerings were definitely the most effective. Only two bid offerings, one of aircraft and one of gas-masks, failed to sell. Other bid offerings in July had an average disposal rate of over 99%, and although bid offerings comprised only 18% of total offerings, sales at bid offerings comprised about 60% of total disposals.

The Washington office has specified that regional offerings, to be considered successful, must attain a disposal rate of two-thirds or 67% (General Letter No. 111, Revised). Only 3 of 22 regional fixed-price offerings which closed in July attained this rate.

The cost of printing and mailing catalogues for 66 regional offerings which closed in recent months has averaged 2% of the regional income from these 66 offerings. However, for 10 of these 66 offerings the cost of printing and mailing the catalogues exceeded 25% of the income realized from the offerings. In 2 cases the cost of printing and mailing the catalogues exceeded the income realized from the offerings.

Income & Expense

Table 2
Income & Expense
July 1947

	<u>Millions of \$</u>
Total Income	
Capital & Consumer Goods Sales	\$3.69
Real Property Sales	0.81
Rents & Interest	1.44
Total	<u>\$5.94</u>
Total Expense	
Salaries & Wages	\$1.30
Warehouse Operation Costs	0.18
Reimbursement to Owning Agencies	0.15
Rents & Utilities	0.11
Protection & Maintenance of Property	0.10
Plant Clearance	0.08
Supplies, Materials, & Equipment	0.05
Other	0.11
Total	<u>\$2.08</u>
Excess of Income over Expense	\$3.86

Regional income went up and expenses went down in July. The increase in income was due to two factors: (1) motor-truck and steam-equipment sales realized an income of \$1.8 million in July as contrasted to less than \$0.2 million in June, (2) The Reynolds Metal Company in July paid the rental (\$1.3 million) for the full fiscal year 1947 on its McCook, Illinois, plant leased from Region V, and the Accounting Division recorded this full payment as July income.

Wages and salaries, the largest item of regional expense, declined only slightly from June to July. Other expenses, however, fell approximately 30% from June to July, and thereby returned to the level of April and May, as June expenses were unusually high.

Iron & Steel Scrap Activity

Region V in July more than doubled its June contribution toward relieving the acute shortage of iron and steel scrap. In July Region V sold at scrap value 875 to 1,000 gross tons of over-age and highly specialized machine tools, pipes, fittings, and other unusable iron and steel commodities vs. 400 gross tons in June. It should be noted that

these figures are minimums. Possibly, other commodities were purchased for their basic metal content, but there is no way of estimating this tonnage since Region V has no way of knowing to what use buyers ultimately put all of the property they purchase from this region.

Sales Claims

Unsettled sales claims on July 31 numbered 823, July being the fifth successive month in which the number of unsettled sales claims has been reduced. Claims were settled in July on more advantageous terms than ever before in Region V's history, July settlements averaging 58% of the dollar amount of the claim.

Misrepresentation of property in selling, shortages in delivery, and losses or damages due to faulty packing accounted for almost 70% of the dollar value of all claims settled in July.

Personnel

Total regional personnel (3154) on July 31 stood at the lowest level in a year. This involved a reduction of 730 employees as compared with June 30. The entire reduction arose from a decline in Regular employees which in turn resulted from the completion of inventory refirming. "Schedule A" employees increased in July for the first time in seven months.

Complaints

A high proportion of Region V's customers is apparently dissatisfied with the service they receive in buying from Region V. A recent survey by the Organization & Methods Division disclosed that in a two-week period in June, 349 customers filed written complaints concerning unsatisfactory service they allegedly received in buying from Region V. These 349 complaints comprised between 10% and 15% of the total number of sales made in a normal two-week period.

Probably many more than 10% to 15% of Region V's customers are dissatisfied, in some way or other, with the service they receive in buying from Region V. First, the 349 complaints cited above do not include oral complaints delivered in person or by telephone. Second, a recent test by a nationally-known research agency found that only 1 out of every 25 dissatisfied customers will take the time to file a written complaint with the seller. This ratio of 1 complaint to every 25 dissatisfied customers is obviously too high to apply to Region V since it would indicate that complaints exceed sales in Region V. However, if it is assumed that 1 out of 5 dissatisfied customers in Region V files a written complaint, then it follows that generally 1 out of every 2 customers is dissatisfied with the service he receives in buying from Region V.

Cancelled Sales

A low ratio of cancelled sales to total sales is desired for two reasons: (1) a customer who is led to cancel a sale may be dissatisfied enough never to buy again from Region V and to discourage his friends and acquaintances from doing so, (2) every cancelled sale represents unproductive expense and lost motion for Region V incurred in making and cancelling the original sale.

Region V's record on cancellations has generally followed rather closely that of other regions, cancellations averaging 7% of total sales. However, within Region V the rate of cancellations has varied greatly among sales sections. For the most part, machinery and machine-tool sales have had a better-than-average record on cancellations. On the other hand, cancelled sales of safety equipment, recreational equipment, textile fabrics, plumbing & heating equipment, tires & tubes, and footwear either equaled or exceeded 50% of their total sales in the January 1-June 30 period. In fact, cancelled sales for the first three sales sections cited, exceeded their total sales in the January-June period. In all, about 1 out of every 6 sales sections had cancellation rates exceeding 20% of its total sales in this period.

Although cancelled sales have been caused by several different factors, probably the most important has been the inaccurate inventory records from which sales have been made. For this reason, cancelled sales in coming months should decrease to the extent that the recent inventory firming corrected the deficiencies in inventory records.

Slow-Moving Inventory

General Littlejohn in his recent report to Congress stated that he expects WAA in one more year to dispose of 90% of all property declared surplus. Many sales sections in Region V are not maintaining this standard; at the July rate of disposal 53 out of 68 sales sections would require more than a year to liquidate their present IBM inventories. This calculation does not allow for the substantial acquisitions of property anticipated in coming months.

Certain sales sections in Region V have consistently had low disposal rates. At the January-June rate of disposal, each of the following sales sections would require more than 3 years to liquidate their January 1st inventories plus acquisitions received from January 1 through June 30:

- Tires & Tubes
- Farm Equipment & Supplies
- Plumbing & Heating
- Safety Equipment
- Recreational Equipment
- Textile Fabrics
- Internal Combustion Engines, Compressed
Air & Hydraulic Equipment
- Metal Processing Equipment
- Special Industrial Equipment
- Metal Heat Treating Industrial Furnaces
- Leather, Fibers, & Miscellaneous Supplies
- Service & Miscellaneous Equipment
- Metal Cutting Equipment

It is notable that each of these 13 sales sections in Region V is selling its inventory at a distinctly slower rate than is the corresponding sales section in most other regions. Averaging all 25 regions, not one of these 13 sales sections would require the 3 years to liquidate their inventories as required by these 13 sales sections in Region V. In fact, most other regions have sold their inventories of 10 of these 13 sales sections at a faster rate than they have sold all consumer and capital goods in the aggregate.

But even if the inventories of these 13 sales sections in Region V consist mainly of property in poor condition or of property having specialized war-use, one thing is still clear. As poor as the market for this property is now, this market will become steadily worse as the months pass, since private industry's output of new postwar merchandise steadily increases and the quality standards of consumers and of business purchasing-agents constantly rise.

Outlook for Region V

Business conditions in the private economy are unusually good-- production is high and in many industries still expanding, spending by business firms and consumers is at an all-time peak, and unemployment is at the lowest peace-time level in history. The specific outlook for industries having the greatest impact upon Region V's disposal program is outlined below.

Machine-tools and industrial machinery still constitute over 50% of the total dollar inventory of Region V. Most firms producing industrial machinery today have more orders than they will be able to fill for many months to come. Also, although firms producing certain types of machine-tools are operating below capacity, the machine-tool industry generally has a backlog of orders equivalent to 5-months' production. In recent months prices on new machine tools have increased generally by 10% to 15%.

Although the market for new machine tools and industrial equipment continues strong, the market for used machine tools and industrial equipment is steadily declining. Manufacturing and industrial firms' purchases have comprised approximately 80% of all Region V's sales of machine tools and industrial equipment. Whereas such firms spent throughout the country approximately \$80 million per month in 1946 for used machine tools and industrial equipment, they plan to spend only \$23 million per month in the July-September 1947 period.

In the face of a sharply declining market for its biggest item of inventory, Region V has three alternatives: (1) Intensified efforts can be made to capture a larger share of the business market for used machine tools and industrial machinery. In the past 6 months Region V has made about 5% of total country-wide sales of used machine tools and industrial machinery made by all WAA regions and by business firms outside of WAA. (2) Non-business buyers--government bodies, schools, etc.--can be encouraged to buy more machine tools and industrial machinery from Region V. In the past, such buyers have purchased less than 20% of all machine tools and industrial machinery sold by Region V. (3) Region V can seek to make inroads on the gigantic market for new machine tools and industrial machinery and to persuade business firms to revise their present investment plans. Business firms plan to spend 38 times as much for new machine tools and industrial machinery in the July-September period as they do for used machine tools and industrial machinery.

The regional inventory of troop sleeping-cars is second only to machine tools as the largest category of regional inventory. Region V on August 6 had 1300 troop cars having an acquisition cost of \$16,000,000. This segment of the regional inventory assumes added importance since the shortage of rolling stock on the nation's railroads, especially freight cars, is one of the most acute of any in the entire economy. Since these troop cars can be converted to civilian use, every effort should be made to push their sale. Early disposal is advisable not only to aid the nation's railroads in the transportation of essential supplies and merchandise, but also because the disposal of these cars may become difficult inside of several months. Within a month or two, private industry expects to double its output of freight cars and to allocate practically this entire output to the domestic economy. This is in sharp contrast to the first 6 months of this year when production lagged 50% behind the production-goal and when over half of this limited output was shipped to foreign countries.

Potential Markets

The export market still remains as the least cultivated of all potential markets open to Region V. Although the over-all export market is now declining some because certain foreign countries are running short of funds with which to buy in this country, this reduction should not lessen appreciably Region V's sales possibilities abroad. The Washington office of WAA has extended \$122 million credit to France, Holland, Turkey, Norway, Finland, Philippines, and Haiti to buy surplus goods in this country. Arrangements are also being made to lend other foreign countries funds with which to buy machinery and other essential capital goods from the United States.

Where foreign nations are obliged to reduce their purchases from the United States, the cuts will probably be made in items not available in Region V's inventory. Thus, Great Britain, one of this country's best customers, plans to reduce its purchases from the United States but these reductions will be centered in food, luxury goods, cotton, lumber, motion pictures, and gasoline. Herbert Morrison, Deputy Prime Minister, recently complained that Great Britain has been unable to buy as many machines as it wants in the United States because American manufacturers give priority to domestic customers in filling orders.

Latin American countries are also in the process of reducing total dollar purchases from the United States, but again the reductions will likely be concentrated in luxury items rather than in industrial machinery and equipment. In spite of present reductions, Latin American imports of U. S. products are expected in 1947 to exceed 1946 imports by \$6 million.

In continental Europe, France and Holland provide good potential export markets. As mentioned previously, the WAA Washington office has recently extended sizable credits to both countries to buy surplus goods. These two countries also have received loans aggregating \$1.5 billion from the Export-Import Bank and the World Bank to buy machinery and other essential "hard" goods in the United States. Russia, too, provides a substantial export market for electrical equipment, machine tools, internal combustion engines, mining & pumping equipment, metals, and metal products. In 1946 Russia purchased \$135 million of such equipment from the United States.

Conditions in the scrap metal market are pertinent to Region V's disposal plans because such a high percentage of the total regional inventory consists of metals and metal products, and eventually a fair percentage of this inventory may prove salable only as scrap.

Iron and steel scrap prices have recently declined some after reaching an all-time peak several weeks ago. However, the demand for scrap is still at an unprecedented rate for peacetime, and prices, despite the recent decline, are still very high.

In view of the favorable condition of the iron and steel scrap market, it would seem appropriate for Region V to survey its metals and metal-products inventories and to offer for early sale, as scrap, all metals and metal products which are unusable for any purpose but scrap.

Early action in this matter appears necessary because the present tight scrap market is not likely to last for many more months. When the present acute steel shortage moderates, the price of iron and steel scrap will fall sharply, and steel-industry spokesmen have recently predicted that by the end of 1947 delivery time for most categories of steel products will be down to normal. The army also is taking steps to alleviate the iron and steel shortage. Whereas in the last year the army has returned no iron and steel scrap to the United States, it expects to return 80,000 tons by November 1947 and 300,000 tons by May 1948. The magnitude of the army's program is apparent from the fact that in the two months, June and July, Region V's sales of iron and steel scrap amounted to less than 1,500 tons.

The non-ferrous-metal scrap market has not changed significantly in recent months. Supplies are quite adequate, and trading has been light.

Federal agencies, state and local governments, and non-profit institutions also provide substantial market opportunities. These bodies spend about a billion dollars every month for a great variety of materials, merchandise, and equipment. That this market is open to most sales sections of Region V is indicated by the fact that in the April-June period 63 out of 68 sales sections sold property to various federal agencies, state and local governments, and non-profit institutions. However, relatively speaking, these sales have been small. In the January-June period, they amounted only to \$1 million (selling prices). Total sales plus transfers without reimbursement to these bodies in the January-June period amounted, at acquisition cost, to \$13 million.